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SUGAR ANNUAL

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Report Highlights:

Mexican sugar production for MY 2009/10 (Oct/Sep) is forecast at 5.8 million metric tons (MMT) raw value (RV). Mexican sugar exports are forecast for MY 2009/10 at 400,000 MT-RV, while sugar import estimates are forecast at 200,000 MMT-RV mainly to cover the needs from the IMMEX industry. HFCS production and imports for MY 2008/09 are forecast to decrease compared to MY 2007/08 as low domestic sugar prices combined with high prices for imported HFCS will result in limited demand for this product.

Commodities:

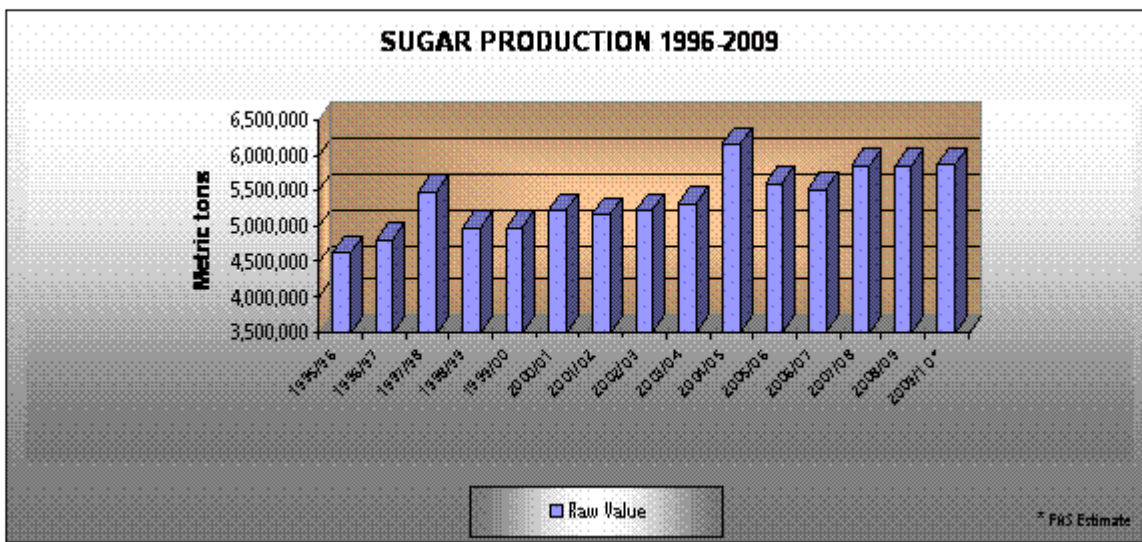
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Author Defined:**SECTION I. SITUATION AND OUTLOOK****SUGAR PRODUCTION**

FAS/Mexico estimates Mexican sugar production for MY 2009/10 (Oct/Sep) at 5.8 million metric tons (MMT) raw value (RV) due to increasing mill yields and expected good weather conditions. Although there has not been any official forecast for sugar production for MY 2009/10 (Oct/Sep), the National Program for the Sugar Cane Agroindustry (PRONAC – by its Spanish acronym) has set among its primary goals a 3.3 percent growth rate in sugar production per year with a corresponding 2.3 percent increase in sugarcane. ([See GAIN Report MX7033](#)). Despite the current world's economic troubles, the sugar industry is maintaining its commitment to follow PRONAC guidelines to achieve higher sugar production levels through the gradual restructuring of the sugar agro-industry. Still, the final production figure will ultimately depend on timely maintenance of the sugar mills, appropriate cultural practices, harvest conditions, and weather throughout the growing season.

The sugar production estimate for MY 2008/09 (October/September) of 5,860 MMT is based on official data. On-going issues pertaining to final payments of cane to producers, the closing of 3 sugar mills, the less than-optimal weather with excess rainfall in some areas and lack of rain in others could prevent the industry from achieving their estimated production levels. Moreover, sugar production could be less than the official estimates due to limited fertilization in some sugar cane productive areas. Like other agricultural inputs, prices of fertilizers were affected by high oil prices during 2008.

Production data for MY 2007/08 remained at 5,850 MMT.



SUGAR CANE PRODUCTION

As previously reported, virtually all sugarcane goes to the production of centrifugal sugar, which mainly occurs between November and May.

The information source for planted area for MY 2007/08, 2008/09 & 2009/10 has changed, and is now gathered from SAGARPA (<http://www.siap.sagarpa.gob.mx/>). Planted area includes area not intended for industrialization and area for seed.

Estimated area harvested for sugarcane for MY 2009/10 is expected to maintain the same level as in the previous marketing year. Even though there are provisions within the PRONAC to encourage the production of ethanol from sugar cane, particularly for the export market, this process is still not profitable in light of current low international oil prices.

Area harvested for MY 2008/09 was revised upward based on industry estimates, however some producers believe that less-than optimal weather factors and less fertilization used during 2008 could reduce final cane yields.

Area harvested for MY 2007/08 was updated based on industry information. On average, the yield of sugar per metric ton of cane in Mexico is 125 kg. of sugar.

There are currently 54 sugar mills spread across 15 of Mexico's 32 states. In early 2009, the sugar industry decided that 3 mills would close for the present crop cycle. These three mills located in the state of Veracruz are: Independencia, Concepcion and San Gabriel. The sugar cane from these mills will be crushed by other nearby mills, minimizing potential losses.

Growers are organized within two major unions, the CNC (National Sugarcane Growers) and CNPR (National Association of Sugarcane Growers) representing over 95 percent of all cane growers. All growers have a contract to deliver their cane to the mills, and they receive technical support and agrochemicals to grow their cane from the mills. For 2009, the contract will be released by mid-October instead of the usual release date of mid-November to give producers more certainty prior to this harvesting activities.

SUGAR AND SUGARCANE PRICES

It is expected that the average 2009 price of 50 kilograms bags of sugar in Mexico will increased over 9 percent compared to the prices observed in 2008. Sugar prices decreased in 2008 and mills kept selling at low prices due to the need for cash to meet obligations, mainly to pay sugar cane growers. The August 2008 wholesale Mexican sugar price was approximately 25.10 cents/lb for standard sugar and 30.11 cents/lb for refined sugar. However, by the end of the first half of 2009 prices are expected to rebound due to the fact that the U.S. market is demanding the sweetener, thus, attractive international prices are encouraging the export of sugar surpluses.

According to current regulations, approximately 57 percent of a set reference price of standard sugar is paid to growers for their sugarcane. The National Committee for the Sustainable Development of the Sugarcane that coordinates and directs the National Sugar Program –PRONAC– determined that the reference price for sugar to establish the cane prices prepayments for MY 2008/09 would use the reference price of sugar of \$5,500 pesos/MT (US\$523.80/MT). The final price for the year will be determined later in September 2009 taking into consideration the average weighted price of the average domestic prices and average price of sugar exports among other factors. Prepayments for MY 2009/10 and the following crops will start with the reference price that resulted in the previous cycle.

Table 1. Mexico: Sugarcane Prices MY2004/05-MY2008/09				
Sugarcane Marketing Year Oct/ Sept	STD sugar price MT/ Peso	STD sugar price MT/ Dollar	57 % payment to growers in Dollars	Exchange rate Peso per Dollar
2004/05	\$5,760.00	\$528.44	\$301.21	\$10.90
2005/06	\$5,760.00	\$528.92	\$301.48	\$10.89
2006/07	\$6,356.45	\$582.09	\$331.79	\$10.92
2007/08	\$5,996.13	\$549.09	\$312.98	\$10.92
2008/09	\$5,500.00	\$412.29	\$235.00	\$13.34

The mill industry's problems in paying sugarcane growers are partly a result of an agreement to pay cane growers an additional 3% of the value of cane purchased in MY 2005/06 by January 31, 2007, and the increase of the reference price of standard sugar for MY 2006/07 up to \$6,356.45 pesos per MT (US\$582.09 per MT) by the GOM. These extra payments along with general cash needs to fund milling operations led to liquidity problems, forcing some sugar mills to sell a portion of their sugar at lower prices. (See GAIN Report [MX7031](#)).

The mills continued to claim liquidity problems in meet obligations for MY 2007/08 cane payments. Therefore, as reported, the federal government implemented a one-time support program for the sugar industry since the mill industry and the Secretariat of Economy recognized that the reference price for sugar that was published on December 12, 2007, was higher than actual domestic prices that were falling. Therefore it was agreed that for MY 2007/08 payments the mills would meet their obligations to pay the cane as stipulated but with this federal government support of about \$1,600 million pesos (approximately US \$150 million). This amount was equally divided between programs headed by the Mexican Secretariat of Economy (SE) and the Secretariat of Agriculture (SAGARPA). The program headed by SE, funded by Mexico's federal treasury, made payments to mills based on production. The program headed by SAGARPA and funded by Mexico's sugar producing states, made payments to sugarcane producers in accordance with a "commercial program" tailor-made for each mill. According to the government the available amount has not all been allocated because some mill did not apply or meet the requirements for the support program.

HFCS PRODUCTION

The Mexican high fructose corn syrup (HFCS) industry produces HFCS with domestic and imported U.S. yellow corn. This industry consumed in CY 2008 about 2.5 million tons of yellow corn of which 2.0 million MT were imported. Under NAFTA there are no TRQ's for corn and this grain can be imported duty free. At this point, in a scenario where sugar prices are very attractive with an unfavorable exchange rate against the U.S. dollar, the production of HFCS is becoming less competitive. HFCS is priced almost 50 percent higher compared to the first semester of 2008, therefore production of HFCS for MY 2008/09 is forecast by the industry to decrease about 15 percent compared to MY 2007/08 production levels.

HFCS production for MY 2007/08 is estimated at between 350,000 to 370,000 MT dry basis, as rising corn prices prevented more production.

SUGAR AND HFCS CONSUMPTION

FAS-Mexico forecasts MY 2009/10 sugar for domestic consumption at about 5.34 MMT-RV. Sugar consumption for MY 2008/09 was updated based on industry information to 5.29 MMT-RV. The sugar industry claims that sugar consumption growth has been slow or almost flat due to a slow down in the consumer purchasing power. Although the industry has also claimed that HFCS consumption growth would restrict sugar consumption, for MY 2008/09 this factor might not be as important as HFCS prices are less competitive than in the past. Furthermore, the soft drink industry sugar consumption estimate for MY 2008/09 is between 1.9 and 2.0 MMT whereas before the estimate was 1.7 and 1.8 MMT. However, it should be noted that there is no complete source for sugar consumption in Mexico and estimates from different sources can vary substantially, including many industry sources that believe that sugar consumption is higher than reported values.

Based on industry information, HFCS consumption for MY 2008/09 is forecast to be between 600,000 and 650,000 MT dry basis, compared to previous estimates of 800,000 MT dry basis. Industry indicates that increasing prices of imported HFCS and imported corn and also the unfavorable exchange rate against the dollar, is limiting the demand for this product. The soda-drink bottling companies are using less HFCS to take advantage of low current domestic sugar prices that in terms of dollars are very low.

SUGAR TRADE

Mexican sugar exports are forecast for MY 2009/10 at 400,000 MT-RV. The final figure will ultimately depend on the final production figure in Mexico for the marketing year, the extent of substitution of sugar for alternative domestic and imported sweeteners and the capacity of Mexico to supply the needs of the U.S. sugar market. The Mexican sugar export estimate for MY 2008/09 is at 580,000 MT-RV, in large part due to the price advantage created by the recent devaluation of the Mexican peso. The sugar export estimate for MY 2007/08 was revised upwards based on World Trade Atlas information.

Sugar use under the "other disappearance" category which is mainly the Mexican re-export program, now called IMMEX ^[1], for MY 2008/09 is estimated at 440,000 MT-RV due to higher-than-expected demand from the industry users. Sugar use under the IMMEX program is forecast to grow for MY2009/10 to meet the industry needs. The IMMEX program allows sugar to be sold as raw material for further processing to Mexican food manufacturers, who buy the sugar either from the Mexican sugar mills at international prices adjusted for import and transportation costs, or, if allowed, through imports. These food manufacturers must then process the sugar within 6 months of the date of purchase (see GAIN Report [MX8030](#)), and must export the final processed product. Although this report does not consider these products when calculating sugar exports, the GOM does

classify the sugar sold under the IMMEX program as exports. Therefore, it is difficult to have an accurate figure for sugar under this program.

Sugar imports [2] are forecast for MY 2009/10 at 200,000 MMT-RV mainly to cover the needs from IMMEX industries. The sugar import estimate for MY 2008/09 was revised downward as the IMMEX industry sourced more domestic sugar for the needs of the industry. Sugar import estimates for MY 2007/08 remain unchanged.

HFCS TRADE

The import forecast for MY 2008/09 of HFCS is expected to slow down to about 250,000 to 280,000 MT dry basis, compared to higher levels of about 420,000 to 430,000 MT in MY 2007/08. Low domestic sugar prices, high prices for imported HFCS, and the unfavorable exchange rate, result in limited demand for this product, adding the unfavorable exchange rate. The average exchange rate for February 24, 2009 was US\$1.00=\$14.90 pesos; whereas the average exchange rate for 2008 was US\$1.00=\$11.14 pesos. Therefore the industry is expecting a lower demand for HFCS for MY 2008/09. Any increase in HFCS consumption will depend on domestic sugar prices, corn prices, sugar domestic supplies, and the exchange rate against the dollar.

STOCKS

Stocks for MY 2009/10 are forecast to continue at similar levels as MY 2008/09. However stocks could end up lower if Mexico decides to pursue an aggressive export strategy.

Sugar stocks for MY 2008/09 are estimated at 1,332 MMT. Lower stocks are expected due to increased exports fueled by an attractive exchange rate but still maintaining an adequate level of strategic reserves given monthly consumption trends. The Sugar Chamber indicates that they have a final stock number of 1,696 MMT-RV for MY 2007/08 which is slightly higher than FAS/Mexico calculations. This is due to the Chamber using a final number for sugar exports of 581,940 MT-RV. FAS/Mexico data, using official Mexican statistics, for sugar exports is 677,000 MT-RV.

POLICY

The Mexican government and sugar industry continue to face challenges pertaining to their domestic and international sugar policies. Challenges include; the continued implementation of the National Sugar Program – PRONAC; the privatization of 13 sugar mills; and policies toward ethanol production.

There are several working groups under PRONAC that are meeting on various topics such as the setting of production goals, field and crop issues, mill improvements and ownership,

and marketing strategies. This program is pursuing four main strategies to help improve competitiveness within the sector:

1. Establishment of a commercial policy coordinated by the Secretariat of Economy.
2. Creation of technical groups in the field to promote increase in yields, allowing the production of ethanol coordinated by the Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA).
3. Creation of technical group to promote the efficiency at mills based on the implementation of modern machinery and equipment, coordinated by the Secretariat of Labor (ST).
4. Creation of a group to promote investment and job opportunities, coordinated by the National Committee for the Sustainable Development of the sugar cane. Nowadays, the Committee —created under the PRONAC provisions— is the maximum authority chair by a Board integrated by different Mexican Ministries: the Secretariats of Agriculture (SAGARPA), Economy (SE), Labor (ST), Treasury (SHCP) and Natural Resources (SEMARNAT). Also, representatives from the Sugar Chamber, 15 governors and representatives of the Agricultural Committees from the Lower Chamber and the Senate.

The government is also expected to continue to manage the return or selling of the last 13 of Mexico's 27 government-owned sugar mills back to private ownership, since the Mexican Supreme Court declared that the entire expropriation of the nation's sugar mills by the government in 2001 was unconstitutional and ordered the Secretariat of Agriculture (SAGARPA) to return the mills to their original owners.

Mexico will host the International Event of the Associations of Sugar Technicians in Veracruz, Mexico in March 2010.

^[1] Decree for the Development of the Manufacturing, Maquila and Export Services Industry. The program was formally known as PITEX

^[2] *Most of the refined sugar imported into Mexico has been classified by customs into the HTS 1701.99 category, corresponding to "other pure sucrose". It has also been confirmed that U.S. sugar exports for Mexico were classified under the same category.*

SECTION II. STATISTICAL TABLES

TABLE 2. MEXICO: CENTRIFUGAL SUGAR PSD

Sugar, Centrifugal Mexico	2008	2009	2010
	2007/2008 Market Year Begin: Oct 2007	2008/2009 Market Year Begin: Oct 2008	2009/2010 Market Year Begin: Oct 2009

	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Beginning Stocks	1,718	1,718	1,718	1,560	1,643	1,613	0	0	1,332
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	5,852	5,830	5,852	5,850	5,900	5,860	0	0	5,870
Total Sugar Production	5,852	5,830	5,852	5,850	5,900	5,860	0	0	5,870
Raw Imports	25	25	25	25	25	10	0	0	20
Refined Imp.(Raw Val)	185	200	200	200	200	160	0	0	180
Total Imports	210	225	225	225	225	170	0	0	200
Total Supply	7,780	7,773	7,795	7,635	7,768	7,643	0	0	7,402
Raw Exports	178	150	217	100	20	100	0	0	100
Refined Exp.(Raw Val)	322	460	460	400	390	480	0	0	300
Total Exports	500	610	677	500	410	580	0	0	400
Human Dom. Consumption	5,300	5,150	5,090	5,350	5,200	5,291	0	0	5,345
Other Disappearance	420	370	415	380	375	440	0	0	490
Total Use	5,720	5,520	5,505	5,730	5,575	5,731	0	0	5,835
Ending Stocks	1,560	1,643	1,613	1,405	1,783	1,332	0	0	1,167
Total Distribution	7,780	7,773	7,795	7,635	7,768	7,643	0	0	7,402

TABLE 3. MEXICO: SUGAR CANE FOR CENTRIFUGAL SUGAR PRODUCTION

Sugar Cane for Centrifugal Mexico	2008 2007/2008			2009 2008/2009			2010 2009/2010		
	Market Year Begin: Nov 2007			Market Year Begin: Nov 2008			Market Year Begin: Nov 2009		
	Annual Data Displayed	New Post Data		Annual Data Displayed	New Post Data		Annual Data Displayed	Jan Data	
Area Planted	983	677	683	680	680	738	0	0	740
Area Harvested	668	666	668	668	668	698	0	0	698
Production	48,305	50,000	48,305	49,000	51,000	51,764	0	0	52,000
Total Supply	48,305	50,000	48,305	49,000	51,000	51,764	0	0	52,000
Utilization for Sugar	48,305	50,000	48,305	49,000	51,000	51,764	0	0	52,000
Utilization for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	48,305	50,000	48,305	49,000	51,000	51,764	0	0	52,000

TRADE MATRICES

TABLE 4. MEXICO: SUGAR EXPORTS AND IMPORTS			
SUGAR	H.T.S.		Units: Metric Tons
1701			
Exports for MY 2007/08 (Oct/Sept) to:		Imports for MY 2007/08 (Oct/Sept) to:	
United States	595,765	United States	193,505
Other		Other	
Dominican Republic	41,000	Canada	16,000
Total Of Other	41,000	Total Of Other	16,000
Other not listed	31,660	Other not listed	3,544
Grand total	668,425	Grand total	213,049

Source: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, June 2008.

Note: Expressed values for H.S.T. 1701 consolidate the following subheadings

1701.11.00, 1701.11.01, 1701.11.02, 1701.11.03, 1701.11.99, 1701.12.01, 1701.12.99, 1701.12.02, 1701.12.03, 1701.91.00, 1701.91.01, 1701.99.01, 1701.99.02, 1701.99.03 & 1701.99.99

TABLE 5. MEXICO: HFCS EXPORTS AND IMPORTS FOR HTS CODE 1702.40			
HFCS		H.T.S.	
1702.40		Units: Metric Tons	
Exports for MY 2007/08 (Oct/Sept) to:		Imports for MY 2007/08 (Oct/Sept) to:	
United States	85	United States	71,152
Other		Other	
Germany	614	Canada	10,573
Total Of Other	614	Total Of Other	10,573
Other not listed	137	Other not listed	29
Grand total	836	Grand total	81,754

Source: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, June 2008.

Note: Expressed values for H.S.T. 1702.40 consolidate the following subheadings:

1702.40.00, 1702.40.01 & 1702.40.99.

TABLE 6. MEXICO: HFCS EXPORTS AND IMPORTS FOR HTS CODE 1702.60			
HFCS		H.T.S.	
1702.60		Units: Metric Tons	
Exports for MY 2007/08 (Oct/Sept) to:		Imports for MY 2007/08 (Oct/Sept) to:	
United States	5,793	United States	465,821
Other		Other	
Germany	1,343	Canada	7,025
Total Of Other	1,343	Total Of Other	7,025
Other not listed	2,609	Other not listed	0
Grand total	9,745	Grand total	472,846

Source: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, June 2008.

Note: Expressed values for H.S. 1702.60 consolidate the following subheadings:

1702.60.00, 1702.60.01, 1702.60.02 & 1702.60.99

SUGAR PRICES

Table 7. Mexico: Average Wholesale Sugar Prices 2007-2008						
Units: 50 Kg. Bulk/Pesos						
MONTH	STANDARD		Change %	REFINED		Change %
	2007	2008		2007	2008	
January	361.40	276.20	(23.57)	412.55	323.53	(21.57)
February	344.95	260.17	(24.58)	403.50	313.25	(22.36)
March	347.12	260.98	(24.81)	400.24	309.42	(22.69)
April	341.00	273.50	(19.79)	398.81	325.00	(18.50)
May	332.30	255.13	(23.22)	389.94	316.33	(18.87)
June	323.00	248.88	(22.94)	384.16	307.83	(19.86)
July	321.00	267.20	(16.76)	383.13	322.67	(15.78)

August	306.50	261.67	(14.62)	380.84	329.17	(13.56)
September	288.12	262.60	(11.66)	366.40	332.43	(11.75)
October	280.40	264.50	(5.67)	351.73	331.75	(5.41)
November	272.12	264.25	(2.89)	331.99	330.42	(0.47)
December	292.00	280.60	(3.90)	333.16	334.94	0.53
Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA http://www.economia-sniim.qob.mx/Sniim-an/e_SelAzu.asp?						
CIF Mexico City						

Table 8. Mexico: Average Wholesale Sugar Prices 2008-2009 Units: 50 Kg. Bulk/Pesos						
MONTH	STANDARD		Change %	REFINED		Change %
	2008	2009		2008	2009	
January	276.20	272.75	(1.24)	323.53	329.50	1.84
February	260.17	272.88	4.88	313.25	329.33	5.13
March	260.98	289.20	10.81	309.42	339.07	9.58
April	273.50	N/A	N/A	325.00	N/A	N/A
May	255.13	N/A	N/A	316.33	N/A	N/A
June	248.88	N/A	N/A	307.83	N/A	N/A
July	267.20	N/A	N/A	322.67	N/A	N/A
August	261.67	N/A	N/A	329.17	N/A	N/A
September	262.60	N/A	N/A	332.43	N/A	N/A
October	264.50	N/A	N/A	331.75	N/A	N/A
November	264.25	N/A	N/A	330.42	N/A	N/A
December	280.60	N/A	N/A	334.94	N/A	N/A
Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA http://www.economia-sniim.qob.mx/Sniim-an/e_SelAzu.asp?						
CIF Mexico City						

Table 9. Mexico: Monthly Exchange Rate Averages 2006-2009 MX Pesos per U.S. \$1.00				
	2006	2007	2008	2009
January	10.56	10.94	10.91	13.15
February	10.48	10.99	10.77	14.55
March	10.73	11.12	10.74	14.71
April	11.03	10.98	10.52	13.86①
May	11.08	10.82	10.44	n/a
June	11.39	10.83	10.33	n/a
July	11.00	10.80	10.24	n/a
August	10.87	10.50	10.10	n/a
September	10.89	10.92	10.61	n/a
October	10.90	10.92	12.56	n/a
November	10.90	10.87	12.31	n/a
December	10.85	10.84	13.40	n/a
Annual Avg.	10.89	10.92	11.14	14.06
Source: Mexican Federal Register				

Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.

• As of first week of April.

USEFUL WEB LINKS

CÁMARA AZUCARERA

www.camaraazucarera.org.mx

ZAFRANET

<http://www.zafranet.com/nosotros/>

INFOAZUCAR

<http://www.siap.gob.mx/ventana.php?idLiga=846&tipo=0>

SISTEMA DE INFORMACIÓN ARANCELARIA VIA INTERNET

<http://www.economia-snci.gob.mx:8080/siaviWeb/siaviMain.jsp>

UNION NACIONAL DE CAÑEROS

<http://www.caneros.org.mx/urgente.htm>